

## Chapter 2: Goals of the Study

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This study was undertaken in response to a mandate passed by the Washington State Legislature in the 2003-2005 sessions. This mandate called for the following study, is undertaken by the Office of Financial Management (OFM):

“...to study land use and local government finance and make recommendations on the impact that current trends in city and county revenue sources and expenditures may have on land use decisions made by counties and cities in meeting goals of the growth management act. Among the areas to be studied: Local government revenue sources and expenditures over the past decade; the relationship between local government finances and land use decisions including commercial, residential, and industrial development; cooperation or competition of adjoining jurisdictions over land use and annexation; the relationship of new development has to existing commercial and residential areas and its effect on a community’s infrastructure and quality of life. The study shall include recommendations for state and local government fiscal partnerships that encourage cooperation among jurisdictions to meet the goals of the growth management act, and how the state and local government fiscal structure can better meet the responsibilities of providing services to citizens and meeting the goals of the growth management act.”

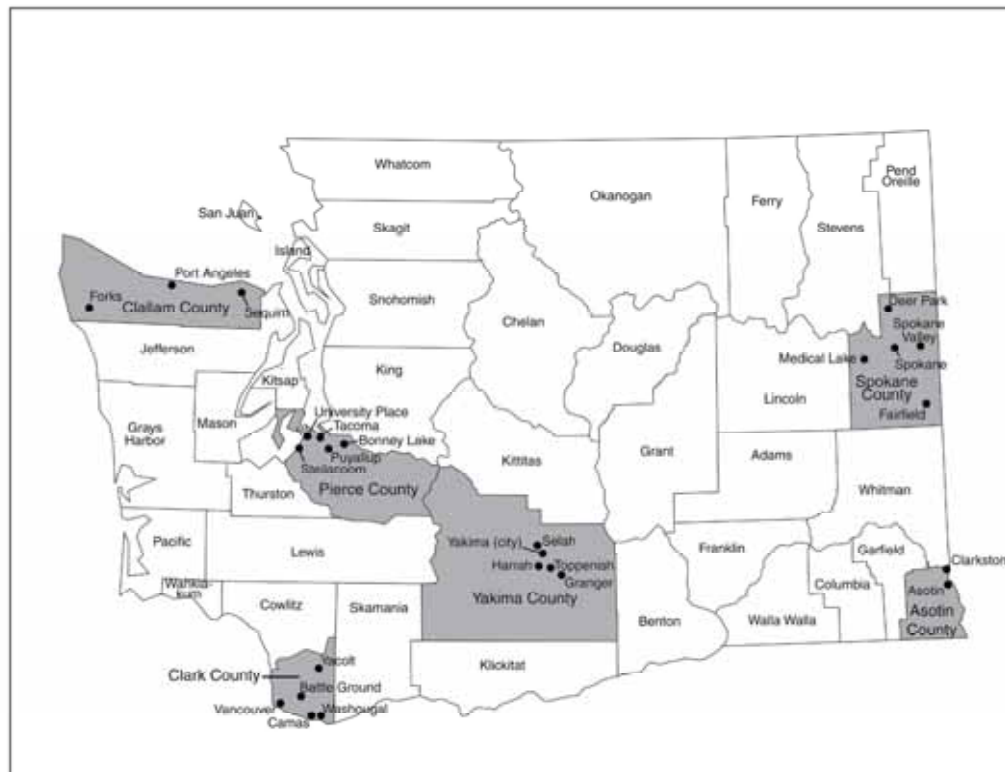
OFM asked the University of Washington (UW) to help with part of this legislative request, and the main portions of this report is the result of that request. Specifically, the UW agreed to provide a quantitative assessment of local government finances in a selected set of counties and cities, with an emphasis on the role of annexations and incorporations that were anticipated under the Washington State Growth Management Act. A key goal of this project was to ascertain fiscal impacts of annexations and incorporations on selected local governments that have been implementing the Growth Management Act.

In approaching this project, the UW has focused on the following questions. What have been the revenue and expenditure trends in local governments since adoption of growth management plans? Most of these plans were phased in about 1994, after adoption of the GMA in 1990. How have annexations and incorporations played into the local government revenue and expenditure picture? What other factors appear to have been important in interpreting local government revenue and expenditure trends?

The UW contractors worked with OFM, CTED, and the Department of Revenue (DOR) in framing this study. CTED helped determine the case study counties and cities that have been included in this study, through consultation with the Association of Washington Cities and the Association of Washington Counties. Figure 1 shows their location; the selected counties have a gray tone, and the selected cities are named. They were chosen for a variety of reasons. They are located in both Eastern and Western Washington. Some have had rapid growth due to incorporations and annexations, but that is not the case with all jurisdictions included in this study.

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Figure 1 Case Study Counties and Cities



This report is divided into two broad sections, and it includes several appendices. The first section is based on the data gathered by the UW for the selected counties and cities from the Washington State Auditor's Local Government Financial Reporting System and a survey of the selected jurisdictions. Chapter 3 contains a detailed report of data from the Washington State Auditor with regard to revenues and expenditures for the local governments included in this study. This chapter of the report includes many graphs and tables, which report on the variety of trends being experienced by the case study local governments. The intent of this part was to look at trends in local government revenues and expenditures over the 1994-2003-time period, and to try to ascertain to what extent these trends were correspondent with annexations and incorporations associated with the Growth Management Act. A secondary intent was to determine other factors associated with local government finances. We have approached this secondary intent in two ways. First, we have interpreted the Auditor's statistics, to the best of our ability, in the context of annexations and incorporations occurring during the study time period. Second, we have asked the local governments included in this study to tell us how important annexations and incorporations have been in comparison to other factors, in understanding their finances.

Chapter 4 presents results of the survey. Some conclusions regarding the local government finance data and the survey are drawn in Chapter 8.

Other sections of the study present additional other information related to local government financing. Chapter 5 discusses existing sources of local government tax revenue and any unused capacity for those sources. Chapter 6 briefly summarizes legislation passed by the 2005 Legislature that will provide additional revenues for local governments. Chapter 7 takes a look at a few selected funding mechanisms that other states utilize to fund their local governments.

Appendix I presents more detailed revenue and expenditure statistics for each jurisdiction than is included in the tables in Chapter 3. Appendix II includes verbatim responses from the local governments that participated in the survey.